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FOR FRANK WISNER

FOL TEL SENT ACTION SECSTATE INFO PRETORIA DURBAN CAPE TOWN
FROM JOHANNESBURG DTD 06 OCT 1976 QTE

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E.O. 11652: N/A
TAGS: EMIN, ENRG, SF
SUBJECT: OCCIDENTAL MINERALS TERMINATES ALL URANIUM, AND OTHER,
EXPLORATION ACTIVITIES IN SOUTH AFRICA

1. OCCIDENTAL MINERALS CORPORATION PRESIDENT, PAUL A. BAILLY,
CALLED ON CONGEN AND MIN OFFICER OCT 4 TO REPORT THAT
HIS FIRM HAD DECIDED TO TERMINATE ALL MINERALS EXPLORATION ACTIVITIES
IN SOUTH AFRICA FOR POLITICAL REASONS. BAILLY SAID THIS WAS AN
"IRREVOCABLE" TOP MANAGEMENT DECISION OF THE BOARD OF HIS PARENT
ORGANIZATION, OCCIDENTAL PETROLEUM CORP, AND IN DIRECT OPPOSITION
TO HIS OWN VIEWS.

2. BAILLY CLAIMED THAT THE REVERSAL OF HIS COMPANYS INVESTMENT
POLICY VIS-A-VIS SOUTH AFRICA, STEMS FROM THE CONTINUING RACIAL
UNREST IN THIS AREA AND THE UNCERTAINTY OF SOUTH AFRICAS POLITICAL
FUTURE--"IN THE EVENT THAT CURRENT US/UK INITIATIVES FAIL". HE
STATED EMPHATICALLY THAT THE DECISION TO "PULL OUT OF SOUTH AFRICA"
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WAS NOT RPT NOT THE RESULT OF POOR OR MARGINAL MINERAL OCCURRENCES,

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OR BECAUSE OF OXY'S INABILITY TO NEGOTIATE WITH SOUTH AFRICAN BUSINESS HOUSES. QUITE THE CONTRARY. BAILLY REPEATEDLY NOTED THAT INVESTMENT POSSIBILITIES, FROM THE STANDPOINT OF EXCEPTIONALLY GOOD MINERAL OCCURENCES, WERE "EXCELLENT BEYOND BELIEF" IN SOUTH AFRICA, AND HE STRESSED THE GOOD RAPPORT HE FELT HE HAD DEVELOPED IN SOUTH AFRICAN MINING CIRCLES. INSTEAD, HE FURTHER EXPLAINED OXY'S ALMOST PRECIPITOUS REVERSAL WITH THE SURPRISING COMMENT THAT HIS PRINCIPALS "FORSEE A POSSIBLE COMMUNIST INFILTRATION INTO BLACK RANKS IN SOUTH AFRICA TO SUCH AN EXTENT, IN THE NEAR FUTURE, THAT ANY INVESTMENT BY OCCIDENTAL WOULD BE TOO GREAT A RISK TO TAKE AT THIS TIME".

3. THE ADVANCED STATGES OF MINERALS INVESTIGATIONS, THE TYPES OF EXPLOITATION ENVISAGED, AND THE PROGRESS MADE BY OCCIDENTAL IN ITS IN-DEPTH NEGOTIATIONS THUS FAR IN SOUTH AFRICA, COMBINE TO MAKE THIS FIRM'S SUDDEN (AND TOTALLY UNEXPECTED) "PULL OUT" A MATTER OF EXCEPTIONAL INTEREST AND IMPORTANCE. A BRIEF OF OXY'S ACTIVITIES AND ACCOMPLISHMENTS, AND THIS CONSULATES INTERPRETATION, FOLLOWS:

4. OCCIDENTALS RECENT INTEREST IN SOUTH AFRICA DATES MOST NOTABLY FROM MARCH 1976. BAILLY VISITED JOHANNESBURG AT THAT TIME TO INITIATE DISCUSSIONS WITH REPRESENTATIVES OF JOHANNESBURG CONSOLIDATED INVESTMENT COMPANY LTD. ("JOHNNIES"), HOPEFULLY DESIGNED TO LEAD TOWARD A PARTNERSHIP IN A MASSIVE URANIUM EXPLORATION, DEVELOPMENT AND EXPLOITATION EFFORT IN THE KARROO MOUNTAIN AREA OF SOUTH-CENTRAL CAPE PROVINCE. OTHER AMERICAN COMPANIES (US STEEL, ESSO, NEWMONT AND PHELPS-DODGE) HAD BEEN, AND REMAIN, SEPARATELY ACTIVE IN THIS GENERAL AREA, WHILE JOHNNIES' HOLDINGS APPEARED TO BAILLY (AND HIS SOUTH AFRICAN CONSULTING GEOLOGIST, DR. HENRY LAROUX) TO BE "THE BEST OF THE LOT". AIRBORNE AND GROUND FOLLOW-UP SCINTILLOMETER SURVEYS(PLUS OUTCROP AND TRENCH SAMPLING) INDICATED A SERIES OF MAJOR NEAR-SURFACE ANOMALIES IN THE VICINITY OF SUTHERLAND, CAPE PROVINCE (32-24S; 20-40E), THAT CLEARLY WARRANT EARLY DEVELOPMENT DRILLING.

5. JOHNNIES' MANAGEMENT CONCLUDED (IN JUNE) THAT THEIR HOLDINGS WERE OF SUFFICIENT SIZE TO JUSTIFY A MAJOR INVESTMENT ULTIMATELY (FOLLOWING OREBODY DELIEATION) AND, WITH OCCIDENTAL LIMITED OFFICIAL USE

CONCURRENCE, DISCUSSED THE FORMATION OF A 4-PARTNER CONSORTIUM WITH NEW JERSEY ZINC AND PHELPS-DODGE. UNDER THE PLAN JOHNNIES WOULD CONTINUE TO MANAGE AND SUPERVISE EXPLORATION AND DEVELOPMENT, OXY WOULD EVENTUALLY BECOME THE PRODUCTION OPERATOR-OF-RECORD(AT WHICH TIME JOHNNIES WOULD REVERT TO ITS CUSTOMARY ROLE OF THE "HOLDING COMPANY", TO SATISFY SOUTH AFRICAN CORPORATE LAW REQUIREMENTS), AND EACH OF THE THREE AMERICAN PARTNERS WOULD MARKET YELLOWCAKE IN THE US.--TO THE EXTENT

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OF EACH PARTNER'S EQUITY SHAREHOLDINGS. NEGOTIATIONS HAD
PROCEEDED WELL BEYOND INITIAL ("DIFFICULT") STAGES, WITH FINAL
DISCUSSIONS, AND AGREEMENT-SIGNING CEREMONIES, SCHEDULED
O/A JANUARY 1, 1977. EQUITY SHARE OWNERSHIP REMAINED AS
THE ONLY KNOWN IMPORTANT HURDLE TO BE OVERCOME. JOHNNIES
HAD ORIGINALLY OFFERED OXY, NEW JERSEY ZINC AND PHELPS-DODGE
20 PERCENT EACH (WITH JOHNNIES HOLDING 40 PERCENT). THIS WAS
REJECTED A MONTH OR SO AGO, WITH AN EQUAL SHARE POTENTIAL (25
PERCENT EACH) CURRENTLY ON THE NEGOTIATING HORIZON. REPORTEDLY,
NO ONE ANTICIPATED PROBLEMS IN THIS REGARD. MEANWHILE, THE
4 PROSPECTIVE PARTNERS ARE UNDERSTOOD TO HAVE MOVED AHEAD
WITH FINANCIAL ARRANGEMENTS DESIGNED TO PROVIDE AN INITIAL
CAPITAL INVESTMENT OF ABOUT $300 MILLION -- AND A PRELIMINARY
PRODUCTION TARGET DATE OF 1980.

6. THE MINERALS OFFICER VISITED THE AREA UNDER STUDY SEPTEMBER
22-23, 1976 (IMMEDIATELY PRIOR TO OCCIDENTALS DECISION TO TERMINATE
ITS PRESENCE HERE), AS THE GUEST OF JOHANNESBURG CONSOLIDATED INVES-
TMENT, AND WITH THE APPROVAL OF OCCIDENTAL MINERALS. THIS WAS THE
FIRST EXPOSURE GIVEN TO ANY NON-COMPANY REPRESENTATIVE BY ANY FIRM,
OF URANIUM EXPLORATIN WORK CURRENTLY BEING CONDUCTED IN THE KARROO'S
--AND ALL QUERIES WERE MET WITH IN-DEPTH RESPONSE (INCLUDING
OPPORTUNITIES TO STUDY AERIAL PHOTOGRAPHS; RADIOMETRIC, GAMMA,
TOPOGRAPHIC AND GEOLOGIC MAPS; PHYSICAL AND CHEMICAL ANALYSES
OF THE ORE; AND FIELD EXAMINATIONS). THE FIELD INVESTIGATION
WAS CONDUCTED UNDER THE GUIDANCE OF MR DOUGLAS L ROBERTS,
LAND DEPARTMENT, JOHNNIES, AND DR HENRY LA ROUX, REPRESENTING
COCCIDENTAL. TWO IMPORTANT ORE BEARING AREAS WERE VIEWED ON
SITE, AS REPRESENTATIVE PORTIONS OF ALL OF JOHNNIES' HOLDINGS IN
THE AREA. URANIUM ORE, AS URANINITE, OCCURS IN A FINE GRAINED,
WELL-DEFINED (ALBEIT IRREGULARLY BEDDED), 3-6 FT THICK, GRAY
CALCAREOUS SANDSTONE OF BEAUFORT SERIES, KARROO SYSTEM,
SEDIMENTS (TRIASSIC). THE ORE HORIZON IS FLAT-DIPPING (0-2
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DEGREES) AND UNDERLIES A COARSE SANDSTONE MEMBER OF THE SERIES
AT DEPTHS NOT EXCEEDING 50 FEET (OBSERVED). AVERAGE DEPTH
APPEARS TO APPROXIMATE 20 FEET, ONLY, AND THUS IS EXCEPTIONALLY
AMENABLE TO OPEN PIT MINING. QUALITIES (PRELIMARY) RANGE
BETWEEN 1-3 POUNDS OF U 3 O 8 PER TON OF ORE (0.05-0.15 PCT)
THROUGHOUT ALL AREAS OBSERVED (AND REPORTEDLY THUS FAR TESTED BY
JOHNNIES FIELD GEOLOGISTS). NO OTHER ECONOMICALLY RECOVERABLE
METAL OR MINERAL HAS BEEN IDENTIFIED TO DATE IN THE URANIUM-
BEARING HORIZON OR IN OVERLYING OR UNDERLYING BEDS. ORE
RESERVE ESTIMATES HAVE NOT BEEN ATTEMPTED AS YET, THOUGH
ALL INDICATIONS ARE THAT A LONG RANGE OPERATION WILL BE
POSSIBLE AT CURRENT (AND ANTICIPATED) WORLD MARKET U3O8 PRICES.

7. BAILLY INFORMED CONGENOFFS THAT, WITH A POSSIBLE URANIUM
VENTURE IN VIEW, OCCIDENTAL HAD ALSO LOOKED ELSEWHERE IN SOUTH

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AFRICA FOR OTHER INVESTMENT OPPORTUNITIES DURING THE PAST SEVERAL MONTHS--"TO ROUND OUT OUR SOUTH AFRICAN PORTIFOLIO". ONE POSSIBILITY, AN ILMENITE-RUTILE-ZIRCON-GARNET, BEACH SAND OCCURRENCE ON THE WEST COAST OF SOUTH AFRICA (NORTH OF SALDANHA BAY) (EXACT LOCATIO NOT AVAILABLE) LOOKS ESPECIALLY VIALBLE AT A POTENTIALLY LOW INVESTMENT COST, ACCORDING TO BAILLY. OXY HAS THE AREA UNDER OPTION TO LEASE AND MAY NOW VOLUNTARILY OFFER THIS HOLDING (AND OTHER INTEREST; NOT DEFINED) TO ANOTHER AMERICAN FIRM. (ONE POSSIBLE RECIPIENT: ST. JOE MINERALS.)

8. COMMENT: WHILE IT CANNOT BE CONSIDERED UNUSUAL FOR ANY MINERALS EXPLORATION COMPANY TO TERMINATE NEGOTIATIONS WITH A POSSIBLE PARTNER DURING PRELIMINARY PLANNING PERIODS (FOR A NUMBER OF'IN-HOUSE' REASONS), WE REMAIN SURPRISED OVER THE LOGIC PUT FORTH BY BAILLY--AT THIS SPECIFIC MOMENT IN TIME. CERTAINLY, OXY WOULD NOT HAVE BEEN REQUIRED TO FIRMLY COMMIT ITSELF ETHICALLY OR FINANCIALLY FOR (SAY) 1-2 MONTHS YET. MEANWHILE, THE OUTLOOK FOR SOUTHERN AFRICA GENERALLY, AND SOUTH AFRICA SPECIFICALLY, MAY WELL BECOME MORE PRECISE; IN LIGHT OF RECENT DEVELOPMENTS. OCCIDENTAL IS ACCUSTOMED TO RISKS OF MANY TYPES IN EXPLORATION IN ANY EVENT (THE RISK IN OIL, FOR EXAMPLE, IS AT ALL TIMES INCREDIBLY HIGH) AND, GIVEN THEIR EARLIER FAVORABLE ASSESSMENTS OF RISK IN SOUTH AFRICA, MAY HAVE BEEN EXPECTED TO 'WAIT AND SEE'. WE WONDER, THEREFORE, IF RECENT POLITICAL DEVELOPMENTS HAVE BEEN USED AS A CONVENIENT
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SMOKESCREEN FOR THE REAL REASON FOR OXY'S TERMINATION OF ACTIVITIES IN SOUTH AFRICA. IS OCCIDENTAL OVER-EXTENDED ELSEWHERE?

ON THE OTHER SIDE OF THE COIN, ESSO REP JOHN VANCE INFORMED CONGENOFFS SEPT 15 THAT HIS FIRM IS MOVING AHEAD SATISFACTORILY WITH THEIR FIELD WORK IN KARROO URANIUM (IN AREAS ADJOINING JOHNNIES' HOLDINGS), AND REMAIN OPTIMISTIC OVER SOUTH AFRICA'S FUTURE. HE SAID, ALSO, THAT, TO THE BEST OF HIS KNOWLEDGE, US STEEL, PHELPS-DODGE AND NEWMONT (EACH WITH ON-GOING INVESTMENTS IN SOUTH AFRICA) CONTINUE TO BE HOPEFUL OF EARLY REGIONAL POLITICAL SETTLEMENTS AND AN IMPROVED INVESTMENT CLIMATE LOCALLY. END COMMENT. JOHNSON UNQTE ROBINSON

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